



MAXIMIZING YOUR TAX-ABLE VALUE

HOW ADDRESSING SIX HIGH-NET-WORTH TAX CHALLENGES CAN KEEP YOUR FIRM PROFITABLE AND RELEVANT

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WITH WEALTHY investors benefiting significantly from the passage of President Trump's tax reforms, is it safe to assume that they are less concerned about maximizing tax efficiency in their investment and financial planning strategies?

Not necessarily, says Dan Flanagan, CPA/PFS®, CFP®, a partner and financial advisor with Canby Financial Advisors in Framingham, Massachusetts.

"While the overall tax rates for high-net-worth investors are lower, in many cases these benefits are being partially offset by the elimination of tax deductions for investment advisory and financial planning fees. This is placing increasing pressure on financial advisors to demonstrate the value they offer beyond investment management," he says.

Since the enactment of tax reforms, Dan has fielded an increasing volume of questions and concerns from both clients and prospects.

"Because I'm totally committed to helping my clients resolve all of their financial challenges, I often handle their tax-related requests myself, rather than working with their own accountants to address them," he admits.



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Dan's tax expertise is unique among advisors. He started his career as a CPA handling audit and tax compliance work for closely held businesses and their shareholders. He soon discovered that many of the executives he worked with were looking for advice and assistance in handling their own wealth management challenges. This motivated him to earn a Master's degree in financial planning and his CFP® certification so he could become a financial advisor. He believed his unique mix of tax, financial planning, and investment management expertise would enhance his value among affluent clients.

Most advisory firms are not fortunate enough to have a tax expert like Dan on staff. However, as more high-net-worth baby boomers approach retirement, they are going to be looking for advisors who not only can manage their wealth, but can address their tax situations and concerns as well.

Six Pressing Tax Challenges Advisors Must Be Able to Solve

The growing complexity of affluent investors' financial lives and tax situations will make it difficult for investment-only advisors to land and retain these clients. To survive, they will need to add financial planning to their service models, and be able to work in partnership with their clients' accountants and attorneys to address specific tax challenges.

While each client's situation is unique, Dan finds that most of the challenges he encounters that require both tax and wealth management expertise fall into six general categories.

THE BIGGEST FINANCIAL CONCERNS OF AFFLUENT INVESTORS



Source: Personal Capital 2017 Affluent Investor Report

1. Building More Tax-Efficient Portfolios

Most clients' individual accounts have a mix of equity and fixed income investments. This is not always the most tax-efficient way to invest. A possibly more tax-efficient approach is to view all of a client's accounts as a single portfolio and to allocate investments in a more tax-efficient manner. For example, a taxable account may predominantly be invested in long-term growth stocks and municipal bonds to minimize taxable income, while tax-deferred (or Roth IRA) accounts may hold higher allocations of dividend-income stocks, taxable bonds and REITs.

2. Minimizing Tax Consequences During Retirement

Many retirees do not fully understand how income from investments and distributions from Traditional IRAs and pension plans could make their Social Security benefits partially taxable and drive up the cost of Medicare premiums.

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"We urge our clients to start planning for retirement long before they leave the workforce. While we are helping them project their future liquidity needs and income streams, we also explore options to anticipate and mitigate tax risks. This may involve rolling over 401K plan assets into a Traditional IRA and then converting to a Roth IRA. Since distributions from Traditional IRAs are taxable, we will sometimes recommend making this conversion after the client has retired so their overall taxable income will be lower," says Dan.

3. Managing Executive Compensation Plans

Many executives and entrepreneurs have deferred compensation and/or stock option plans. For these clients, Dan will work with their CPAs to figure out when it makes sense, from an income tax point of view, for the individual to receive deferred compensation or develop a vesting schedule for stock options. After stock shares have vested, he will develop a tax-advantaged strategy for selling shares of the stock to build a more diversified investment portfolio from the proceeds.

4. Choosing an Appropriate Retirement Plan

Small-business owners and sole proprietors often ask for advice on which kind of tax-deferred retirement plan is right for their business. Dan and his fellow advisors will work with a client's CPA to figure out which kind of plan—SEP IRA, Simple IRA, Keogh, 401k or defined benefit plans—enables the owner to benefit most from tax-deductible contributions.

5. Maximizing the Tax Benefits of Charitable Deductions

Many wealthy clients with philanthropic objectives also want to maximize the tax benefits of their donations. Advisors, working in partnership with CPAs, can play a crucial role in helping them achieve these goals. For example, those with appreciated securities or tangible assets such as property or business shares can avoid paying capital gains taxes on their disposition by donating them to a qualified charity. In most cases, donors can get a deduction for the fair market value of non-cash assets.

Clients who want more flexibility than giving to a single organization can receive similar tax advantages—and in some cases, income streams--by giving to qualified charitable vehicles:

- **Donor-advised funds:** These public charities allow the donor to recommend one-time or recurring grants be made to qualified charities.
- **Charitable remainder trusts:** Commonly funded with gifts of appreciated assets which are then liquidated, the trust can generate regular income for designated beneficiaries (including the donor) over a specified time frame. At the end of this period, all remaining assets are distributed to one or more designated charities.



ADDING TAX PLANNING CAPABILITIES TO YOUR FIRM

As increasing number of wealthy baby boomers approach retirement, they are likely to ask their advisor for help in dealing with their tax issues.

If you are like most advisors, you have enough on your plates without the additional burden of mastering complex and ever-changing tax laws. So what should you do?

- Team up with your clients' tax professionals. Soon after you acquire a new wealthy client, proactively reach out to their accountant or tax attorney to get a better understanding of their tax situations and engage them as partners in addressing any specific tax challenges.
- Establish partnerships with local tax professionals. Some clients may need a higher level of tax planning advice than their own accountants can provide. Having a network of CPAs and tax attorneys at your fingertips can provide you with additional resources to help you resolve these issues.
- Add an experienced CPA to your firm. This individual can serve the dual role of preparing clients' returns and collaborating with advisors to address clients' tax-related challenges. Ideally, this individual will bring their own clients with them, creating a new source of advisory prospects.

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In many cases, the advisor may be given discretionary authority over the management of the vehicle's investments with either of these options.

6. Using Trusts to Keep More Money in the Family

During estate planning discussions, most wealthy clients express their desire to pass on as much of their wealth as possible to their children or other heirs. Irrevocable trusts may offer an appropriate solution.

- Assets granted to the trust may be removed from the client's estate, thus avoiding probate and estate taxes.
- Appreciated assets can be sold after they are granted to the Trust, enabling the grantor to avoid paying capital gains.

- With a living (inter-vivos) trust, the grantor(s) and other beneficiaries can receive income from the trust while still alive.
- Investment income or capital gains generated by assets in the trust are paid by the trust itself, not the grantor.



PARTNER WITH PREMIER TO SOLVE YOUR CLIENTS' TAX CHALLENGES

Whether you want to establish partnerships with local tax professionals, or add a CPA to your firm, the tax savvy financial advisor is being sought out by the wealthy. Providing investment management, tax advice, and partnering with an advisor-friendly trustee like Premier Trust for trust services, allows advisors to position themselves with a family office feel. If your clients want to establish trusts to fulfill their estate planning objectives or hold alternative investments inside an IRA, Premier Trust is ready to help you address their unique tax challenges.

For more than a decade, Premier Trust has provided a full line of cost-effective, flexible personalized trust administration, IRA, and estate settlement services that enable advisors to address their clients' complex financial needs.

We are able to receive, dispose, and facilitate investments in a wide range of traditional and alternative assets, including property, land, private business shares, and energy interests, giving you the flexibility to maximize tax benefits for your clients. We do not provide investment services. Your value as their investment professional will always be front and center.

Premier Trust is chartered and headquartered in Las Vegas, Nevada. We are able to offer you and your clients the advantages of Nevada's progressive trust, corporate and tax laws which offer maximum protection of clients' assets from creditors and longer-term multi-generational trusts that can last up to 365 years.

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